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ABSTRACT

This public policy report focuses on financing child care in the United States. The report contains brief articles on the following topics: (1) child care wages in comparison to other positions; (2) benefits to businesses when employees have high-quality child care; (3) resources for funding early education systems; (4) comparison of the cost of early education and college tuition; (5) description of a demonstration project funded by the Ewing Marion Kauffman Foundation to determine the most effective policy alternatives to link compensation to quality care; and (6) a description of the Smart Start for Kansas Teachers program. The report asserts that while states and the private sector have made significant gains in their support for early childhood programs, only a few states have developed a statewide vision for early childhood. Government programs will temporarily raise the salaries of participating teachers but long-term solutions are needed to make permanent changes to the compensation system. (KB)

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Financing Child Care.
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Winter 2002

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FINANCING CHILD CARE

A PUBLIC POLICY REPORT FROM THE EWING MARION KAUFFMAN FOUNDATION WINTER 2002

Well Paid Teachers = High Quality Early Education

Caring for the very young is one of our most important responsibilities. While a parent is a child's primary caregiver, most parents are also in the labor force. More than 60 percent of all mothers with children six and younger need child care for at least part of the work week. Recent changes in welfare policy have resulted in more women in the work force increasing the demands for affordable child care. More than ever, early childhood educators play a pivotal role in shaping children's social, emotional and cognitive development and in preparing them for school. Yet, the very low wages paid to the childcare workforce is preventing many qualified teachers from entering the field and driving others from their careers in pursuit of better pay. Wages for child care workers are among the lowest paid in the U.S. labor force.

Research indicates that consistent care by an educated teacher is fundamental to quality early education and quality experiences lead to increased school readiness of our youngest children.

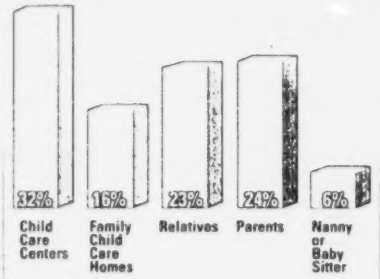
According to the National Association of the Education of Young Children (NAEYC), children thrive under the care of sensitive, consistent, well-trained and well-compensated caregivers. Yet high turnover of staff is potentially detrimental to the social-emotional development of children.

It is difficult to determine why child care wages are so low. One reason is that most child care is provided by private child care facilities where wages are set by the owners. According to a study conducted by the Foundation for Child Development, the wages set by child care centers influence the turnover level of teachers. While some centers pay a premium to avoid high turnover and attract more qualified workers, others hire minimally qualified workers, pay low wages and tolerate the turnover.

While parents who have the money generally have access to high quality of child care, working parents with fewer resources are often forced to settle for lower quality care. ✪

Who's Caring For Kids?

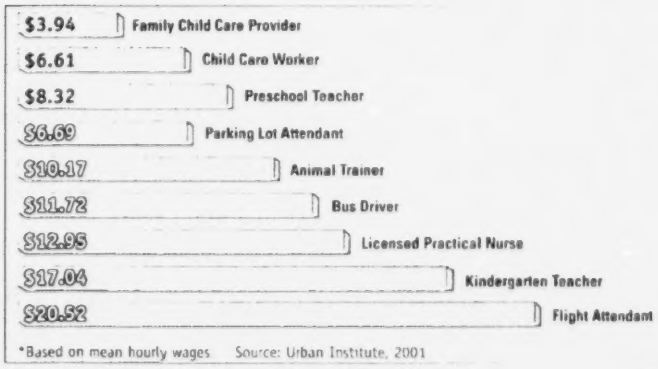
Caregivers For Children Under Age 5 Whose Mothers Are Working



Source: Urban Institute, 2001

What Do Early Childhood Teachers Earn?

COMPARISON OF WAGES*



*Based on mean hourly wages Source: Urban Institute, 2001

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SUPPORTING CHILD CARE MAKES GOOD BUSINESS SENSE

Private employers are recognizing the value of high quality, reliable child care for their employees. One survey found among employers that offered child care assistance to their employees, employers reported less absenteeism and increased productivity. Assistance might include on-site child care, referrals for workers, financial assistance for employees or contributions to child care programs. AT&T helps to meet the needs of its employees through the Family Care Development Fund, which is a grantmaking fund to support both child and elder care needs.

Businesses derive great benefits when employees have high-quality child care.

The Austin Area Employers Collaborative (AAEC) is a coalition of employers promoting the availability, accessibility and affordability of dependent care. Started in 1995 by a group of small businesses and providers, today's AAEC pools the resources of several major employers including Dell, AT&T, IBM and Motorola to accomplish common goals. Funds are pooled to benefit child care facilities that enroll children of parents employed by the companies.

Despite the fact that businesses derive great benefits when employees have high-quality child care for their children, relatively few employers invest in quality child care as an employee benefit. According to Working Mother magazine, only one in 10 U.S. companies polled offered on- or near-site child care, another 10 percent arranged for employee discounts at local child-care providers.

Parents pay the majority of fees for child care expenses, which is another reason why child care workers salaries remain so low. Increased business support in child care programs provides a three-fold benefit: Child care centers would have additional revenues to increase teacher compensation, which improves the quality of child care. Families benefit by being able to access and afford high-quality care for their children. And businesses benefit from improved employee morale and productivity. When employees know that their children are in high-quality child care centers, they are better able to focus on their job and work toward the company's goals.

Funding an Early Education System

In order to maintain a consistent level of funding, states and communities are using public, private and mixed sources of funding to finance child care. States, localities and the private sector are working together to develop model programs to determine the best way of addressing the issue of low pay for early education teachers.

FEDERAL RESOURCES

The federal government allocates money to the states to support child care through several different programs. The Child Care Development Block Grant (CCDBG,) also known as the Child Care and Development Fund (CCDF) provides states with money for children in families earning below 85 percent of the state median income. In an effort to provide parent choice and equal access to care for low-income families, states have flexibility in setting eligibility standards, requirements for parent co-payment levels and reimbursement rates for child care providers. States are required to conduct a market rate survey every two years to assure that the reimbursement rate is adequate. States also use CCDBG funds to train and recruit providers, fund resource and referral services, improve health and safety measures in facilities and to educate the public about child care issues.

The 1996 federal Temporary Assistance to Needy Families welfare act, known as TANF, provides states with flexibility to increase child care benefits for poor families. Other federal funds include social services funds (known as Title XX funds), nutrition programs and preschool funds for children in low-income families, known as Headstart.

STATE SPENDING

In addition to federal dollars, states spend additional money for a variety of early childhood initiatives on programs to reduce parent co-payments to

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providers, expand pre-kindergarten or Head Start programs and to improve the quality of child care and family support services. Several states raised child care reimbursement rates to encourage better quality care in hard-to-serve areas, this approach is often called a "tiered" reimbursement system.

States frequently partner with local government and community based agencies to provide funding for early childhood services. North Carolina's Smart Start initiative provides counties with flexible funding to improve child care — from subsidies for low-income families to increasing caregiver wages. Similar measures were adopted in South Carolina.

Several states including Pennsylvania, Minnesota and California have created education incentives and student loan assistance to individuals seeking advanced degrees or professional development in early childhood education. From 1993 to 2000, Pennsylvania supported a loan forgiveness program for people of up to $2,500 per calendar year up to $10,000 per applicant.

PUBLIC/PRIVATE PARTNERSHIPS

California, Oklahoma and Vermont are among the states leveraging business resources for child care training and education. In 1988, California established a public/private partnership to support a project to recruit, train and sustain new family child care providers. With an annual $250,000 appropriation from the legislature, the Child Care Initiative Project is able to draw an additional $500,000 from private, corporate, individual and local government sources. The initiative has raised over $10 million from public and private funds and provided basic and advanced training to more than 36,000 providers, including 8,000 Spanish-speaking providers.

Founded in 1988, the Success By 6 initiative, sponsored by the Bank of America Foundation and the United Way of America, is a nationwide program that builds local capacity by leveraging millions in public and private dollars. In 2000-01, Success By 6 grants supported 73 programs in 21 states to improve the quality of early care by helping child care staff increase their knowledge and skills through training and courses at community colleges and universities.

The Kauffman Foundation supports the Developing Your Family Child Care Business program to help individuals launch and sustain a successful home-based child care business. The curriculum, which is offered in Kansas, Missouri and Washington, D.C., incorporates the disciplines of entrepreneurship, community support and quality early childhood education. ✪

Why Are Qualified Teachers in Short Supply and High Demand?

- ▷ Increase in state funded pre-kindergarten programs has raised the demand for qualified teachers. The public education system offers better compensation, benefits and job security
- ▷ A shortage of elementary school teachers, compounded by efforts to reduce class size, results in the "cherry picking" of better educated, early childhood workers.
- ▷ Changes in the economy have provided more employment choices for women. Child care is no longer one of the only career choices for working women.

Source: Economics of Caring Labor: Improving Compensation in the Early Childhood Workforce, A.L. Mailman Family Foundation and Foundation for Child Development, January 2000

Families Pay More for Early Education than for College

The average cost of child care for a 4-year-old in an urban area is more than twice the average annual cost of public college tuition. In some cities, child care costs twice as much as college tuition. Consider a two-parent family with both parents working full-time at minimum wage ($21,400 per year before taxes). If they managed to budget 10 percent of their income for child care ($2,140), they would be left several thousands dollars short of what they need to afford average-priced child care, which averages between $4,000 and $6,000 a year.

Families pay the largest share — roughly 60 percent — of all child care expenditures. Government (federal, state and local) pays much of the balance through directly subsidizing all or part of child care tuition or through tax credits. The private sector contributes less than 1 percent.

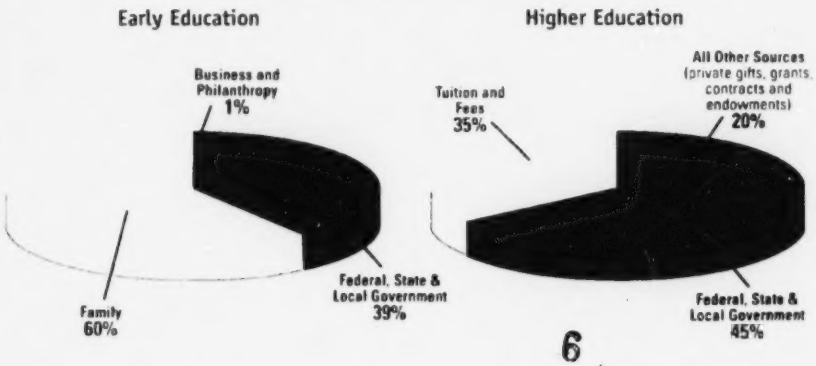
In contrast, families pay much less for a college education. In 1998, tuition and fees at a 4-year public college or university averaged $3,243 per year. But the tuition and fees charged to families represented on a modest portion of the actual cost of that college education, which was about $18,000. Families pay about 23 percent of a public college education – or about 35 percent of the cost, taking public and private colleges together. Government and the private sector pay the balance of those costs.

The expectations for family in these two areas — paying for child care and paying for college — are clearly different. On average, families spend 15 to 18 percent of their total family income on child care and 5 to 7 percent of their total income on college.

New research from the Lumina Foundation for Education suggests that those advocating for a strong early education system should look to higher education as a funding model which might generate financial aid to families and quality programs. ✪

Source: Financing Child Care in the United States, 2001

Major Revenue Sources


Early Education
Business and Philanthropy 1%
Family 60%
Federal, State & Local Government 39%
Higher Education
Tuition and Fees 35%
All Other Sources (private gifts, grants, contracts and endowments) 20%
Federal, State & Local Government 45%

While the states and private sector have made significant gains in their support for early childhood programs, only a few states have developed a statewide vision for early childhood. And while government programs, such as Kansas Smart Start, will temporarily raise the salaries of teachers participating in the program, long term solutions are still needed to make permanent changes to the compensation system.

According to Jane Knitzer, National Center for Children in Poverty, research shows that years of economic prosperity for states have helped shape the increase in commitments to young children. "The challenge will be to sustain the gains and improve upon them, as the economic climate is not so promising. While there is much to build on, the gains for young children are vulnerable to changing political and economic circumstances," says Knitzer.

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A Case Example

Early Education Finance Demonstration Project

The Ewing Marion Kauffman Foundation has recently embarked on a five-year demonstration project in two states linking professional development, quality of early education and increased compensation to promote positive outcomes for young children and their families. Through a partnership with the Kansas Association of Child Care Resource and Referral, (KACCRRA) the University of Missouri-Columbia and the Metropolitan Council on Child Care, three separate demonstrations will be conducted to determine the most effective policy alternatives to link compensation to quality care. The Kauffman Foundation has committed more than $10 million for the three projects, which are leveraging a combination of state, federal and private funds.

IN MISSOURI, the University of Missouri-Columbia and the Center for Family Policy and Research developed a statewide initiative to increase the professional development and compensation of early educators. The Workforce Incentive (WIN) Project is a research-based project, which will provide bi-annual incentive payments to teachers and center directors who remain employed by the same early childhood program for six months. The goal is to create a compensation system similar to that of the K-12 education system. In addition to funds from the Kauffman Foundation, the project has leveraged an additional $50,000 from the state and created a statewide coalition of public and private partners. WIN is being implemented in several rural counties, St. Louis and Boone County, Missouri.

IN KANSAS, KACCRRA, a network of resource and referral agencies across the state working to improve the quality and availability of child care, has leveraged more than $2.5 million from the state to promote the stability of the workforce and improve the level of education of child care providers. Like the Missouri program, KACCRRA will provide bonuses every six months to teachers who are participating in this multi-county demonstration program. Through the program, teachers will receive between $300 and $4000 per year in bonus pay.

AND IN KANSAS CITY, the Metropolitan Council on Child Care is creating a comprehensive system for early education in the eight-county metropolitan area in part by creating a more stable and professional child care workforce. Studies have shown that low wages among workers results in annual staff turnover rates of 38 percent. This turnover results in a loss of accreditation, and in a cycle of spending money without increasing the education level or the quality of the workforce. To address this issue, the Metropolitan Council will use a combination of federal, state and private dollars to conduct a compensation demonstration project in the greater Kansas City area.

A 38 percent staff turnover rate in Kansas City results in a loss of accreditation and in a cycle of spending money without increasing the education level or the quality of the workforce.

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Smart Start for Kansas Teachers

As a teacher at the Women's Community Y Child Development Center in Leavenworth, Kansas, Ne Vada Passafume knows what it means to work in a profession that pays very little. While she is well qualified to teach young children, having earned an associate of arts degree in early childhood education, she and her husband struggle to meet their financial obligations including the costs of special education for their four-year old autistic son.

Thanks to the Smart Start Program, Ne Vada Passafume is no longer considering leaving her job as a preschool teacher.

"Teachers make a sacrifice when they go into the early education field," says Passafume. "They do what they love but make little money. I have seen highly qualified coworkers leave the field all together because it's financially impossible to stay."

Thanks to the Tri-County Smart Start Program in Kansas, Ne Vada was able to boost her earnings from $6.56 an hour to $11 an hour. The program, which serves Johnson, Leavenworth and Johnson Counties, aims to improve the quality of care in the area's center based early education programs by recruiting and retaining qualified teachers. Low staff turnover is key to quality child care programs.

The Smart Start Kansas Program is a framework of services for early childhood care and education initiatives funded in part by the state's share of the tobacco settlement dollars. The Tri-County Smart Start Program uses about $650,000 in state dollars and an additional $1.5 million in public and private funds to provide assistance and resources to child care centers for staff development, wages and benefits for staff. Teachers who pursue additional training and education are awarded additional pay. Participating centers report that applicants have higher levels of education and training, which allows them to achieve national accreditation, expand program services and reduce staff turnover.

Thanks to the Smart Start Program, Ne Vada is no longer considering leaving her job and is thinking about her future.

"My husband and I have the same goals and dreams of every other married couple. One of which is to buy a house. With the extra income, we are saving for a down payment." ✪

FOR MORE INFORMATION

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www.nccp.org

National Child Care Information Center
www.nccic.org

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www.nga.org

National Women's Law Center
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